

Message Text

CONFIDENTIAL

PAGE 01 HELSIN 00256 01 OF 03 071823Z
ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 SS-15 SP-02 INR-07 PRS-01 PM-04
EURE-00 SSO-00 INRE-00 IGA-02 L-03 SIL-01 /056 W
-----071831Z 084915 /41
O 071415Z FEB 77
FM AMEMBASSY HELSINKI
TO SECSTATE WASHDC 0960

C O N F I D E N T I A L SECTION 1 OF 3 HELSINKI 0256

STADIS//////////

E.O. 11652: GDS
TAGS: ECON, FI
SUBJECT: FINNISH ECONOMIC SITUATION

REF: STATE 023041

1. SUMMARY: OF THE THREE SCENARIOS SET OUT BELOW FOR
FINNISH ECONOMIC/POLITICAL DEVELOPMENTS OVER NEXT 2-3 YEARS,
WE THINK MOST LIKELY IS MUDDLING-THROUGH WITHOUT POLITICAL
CONSENSUS IN SUPPORT OF INCOMES AND FISCAL POLICIES MOST
APPROPRIATE TO FINLAND'S SITUATION AS EXPORT-DEPENDENT SMALL
COUNTRY VULNERABLE TO INTERNATIONAL CYCLICAL MOVEMENTS. WE
THINK DEVALUATION PROBABLE BUT WITHOUT SUBSTANTIAL DETERIOR-
ATION IN INTERNATIONAL FINANCIAL STANDING. OUR MOST OPTIMISTIC
SCENARIO IS THAT PROJECTED BY BANK OF FINLAND AND FINANCE
MINISTRY-- EXPANSION OF EXPORT MARKETS, MODERATION OF INFLATION,
AND AVOIDANCE OF DEVALUATION. EVEN UNDER WORST - AND LEAST
LIKELY -- SCENARIO WE DO NOT ENVISAGE EITHER THAT FINLAND
WOULD FAIL TO MEET INTERNATIONAL FINANCIAL COMMITMENTS OR
THAT SOVIETS WOULD BE ABLE TO CONVERT INCREASED ECONOMIC
LEVERAGE INTO RADICAL ALTERATION OF CONDITIONS OF FINNISH
NEUTRALITY. END SUMMARY.

2. REVIEW OF CURRENT SITUATION
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 HELSIN 00256 01 OF 03 071823Z

A. INFLATION: DURING THE LAST THREE YEARS FINLAND'S
INFLATION HAS BEEN 30 PERCENT HIGHER THAN THE OECD
AVERAGE. THE RATE OF INFLATION LAST YEAR WAS 12.3
PERCENT, OF WHICH FOUR-FIFTHS WAS ATTRIBUTED TO DOMESTIC
SOURCES. LABOR COSTS CONTINUED TO RISE DESPITE A
DECLINE IN PRODUCTIVITY, AND PUBLIC SECTOR EXPENDITURES
CONTINUED TO EXPAND, ALTHOUGH FOR THE SECOND STRAIGHT

YEAR GROSS DOMESTIC PRODUCT SHOWED NO REAL GROWTH.

B. FOREIGN TRADE: FINLAND'S SEVERE FOREIGN TRADE DEFICIT IN 1975 OF FMK 8 BILLION -- 8.5 PERCENT OF GDP -- WAS VIRTUALLY HALVED LAST YEAR TO FMK 4.1 BILLION, MAINLY BECAUSE IMPORT DEMAND CURTAILED. FINNISH EXPORTS OF GOODS AND SERVICES, ACCOUNTING FOR ONE-FOURTH OF GDP, VULNERABLE BECAUSE HIGH-COST, CONCENTRATED IN A FEW SECTORS WHICH CYCLICALLY SENSITIVE, AND CONCENTRATED IN A FEW MARKETS WHERE RECOVERING LAGGING. LAST YEAR EXPORT PRICES REMAINED AT SAME LEVEL AS PREVIOUS YEAR. IN FOREST INDUSTRY (46 PERCENT OF FINNISH EXPORTS IN 1975) FIRMS ABSORBED LOSSES IN ORDER TO MAINTAIN EXPORT MARKETS (UK 24 PERCENT OF FOREST EXPORTS, USSR 17, FRG 12); IN METAL AND ENGINEERING, INCLUDING SHIP-BUILDING (32 PERCENT OF EXPORTS OF WHICH 27 PERCENT TO SWEDEN, 26 PERCENT TO USSR) GOVERNMENT ABSORBED LOSSES THROUGH EXPORT INFLATION INSURANCE. ALTHOUGH PREDOMINANT FEATURE OF STRUCTURE OF FINNISH EXPORTS OVER LAST QUARTER CENTURY IS EXPANSION OF SHARE OF METAL AND ENGINEERING INDUSTRY RELATIVE TO FOREST INDUSTRY, FORMER NOW APPEARS MORE VULNERABLE; IT PRODUCES SPECIALIZED, HIGH-TECHNOLOGY PRODUCTS, LACKING ASSURED MARKETS, AT LEAST IN WEST. SCARCITY OF NEW ORDERS IN SOME BRANCHES COULD REFLECT NOT ONLY FALL-OFF IN MARKETS BUT DECLINE IN PRICE COMPETITIVENESS.

C. FOREIGN PAYMENTS: FINLAND'S NET FOREIGN DEBT GREW BY ALMOST 80 PERCENT IN 1975 TO FMK 20.3 BILLION, AND INCREASED LAST YEAR BY 18 PERCENT TO FMK 24 BILLION, OR 22 PERCENT OF GDP. TIGER FOREIGN INTEREST
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 HELSIN 00256 01 OF 03 071823Z

PAYMENTS WILL BE THE EQUIVALENT OF ONE MONTH OF EXPORT EARNINGS. REPUBLIC OF FINLAND FLOATED \$50 MILLION BOND IN NEW YORK LAST DECEMBER AFTER OBTAINING AAA RATING FROM STANDARD AND POOR AND AA FROM MOODY. GOVERNMENT'S MAIN PURPOSE WAS TO IMPROVE ACCESS TO U.S. CAPITAL MARKETS FOR FINNISH BORROWERS AND TO FACILITATE REFINANCING OF LARGE FOREIGN DEBT.

D. GOVERNMENT POLICY: THE PRESENT MINORITY GOVERNMENT LACKS BREADTH OF SUPPORT TO INFLUENCE FORCEFULLY INCOMES POLICY AND ENSURE MODERATE OUTCOME OF CURRENT NEGOTIATIONS, ON WHICH ITS ECONOMIC STRATEGY PRUDICATED. WITH THE SOCIAL DEMOCRATS UNLIKELY TO RETURN TO GOVERNMENT UNTIL THE CURRENT LABOR NEGOTIATIONS ARE CONCLUDED, AND KEKKONEN NOT EXERTING INFLUENCE, NEGOTIATIONS ARE FLOUNDERING AND PROBABILITY OF STRIKES GROWING, EVEN THOUGH CURRENT UNEMPLOYMENT -- 130,000 WORKERS, SIX PERCENT OF LABOR FORCE -- IS HIGHEST IN LAST TWO DECADES, WITH EMIGRATION TO SWEDEN CONTINUING TO RISE. MAIN ACCOMPLISHMENT OF PRESENT CENTER PARTY-

LED GOVERNMENT WAS PASSAGE OF FAIRLX RESTRICTIVE BUDGET THROUGH TEMPORARY ALLIANCE WITH CONSERVATIVES. HOWEVER, BUDGET CEILINGS, LIKE RECENTLY REDUCED PRICE CONTROLS, SELDON STICK, IN ABSENCE OF STRONG GOVERNMENTAL INCOMES AND FISCAL POLICIES, BANK OF FINLANG GOVERNOR MAUNO KOIVISTO HAS FOLLOWED MONETARY POLICY AS TIGHT AS ANY IN RECENT HISTORY. INTERNAL DEMAND AND PRESSURE ON EXTERNAL ACCOUNT HAVE BEEN DAMPENED. THE COST IS THE CURRENT FALL-OFF IN INVESTMENT, INCREASED SLACK IN THE ECONOMY, AND RISE IN UNEMPLOYMENT.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 HELSIN 00256 02 OF 03 072004Z
ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 SS-15 PM-04 SP-02 INR-07 PRS-01
EURE-00 SSO-00 INRE-00 IGA-02 L-03 SIL-01 /056 W
-----072009Z 085906 /47

O 071415Z FEB 77

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC IMMEDIATE 0961

C O N F I D E N T I A L SECTION 2 OF 3 HELSINKI 0256

STADIS

2. MOST LIKELY SCENARIO

A. DESCRIPTION: WESTERN MARKETS REVIVE PROGRESSIVELY OVER NEXT 2-3 YEARS. FOLLOWING SHORT PERIOD OF STRIKES, WAGE SETTLEMENTS ARE NEGOTIATED THAT DAMPEN INFLATION ONLY SLIGHTLY. MAJORITY GOVERNMENT IS FORMED IN MID OR LATE 1977 BUT IS UNABLE TO IMPLEMENT FIRM INCOMES AND FISCAL POLICIES. FINNMARK IS DEVALUED IN LATE 1977 OR 1978. CONTINUED TIGHT MONETARY POLICY IS REQUIRED IN LIEU OF EFFECTIVE GOVERNMENTAL AUSTERITY MEASURES IN ORDER TO MAKE DEVALUATION STICK. SLIGHT SLIPPAGE IN FINLAND'S INTERNATIONAL STANDING PROVES TEMPORARY AS EXTERNAL ACCOUNT IMPROVES, LEADING TO EXPANSION OF ECONOMIC ACTIVITY AND EMPLOYMENT. CONTINUING POLITICAL ISSUES CENTERING ON INCOME DISTRIBUTION CLOUD PROSPECTS FOR STABLE PRICES OVER LONGER TERM.

B. EXTERNAL FACTORS: INCREASES IN OPEC PRICES

OVER THE NEXT 2-3 YEARS, WHICH SOVIETS ADHERE TO, HAVE MORE SIGNIFICANT IMPACT ON PRODUCTION COSTS IN FINLAND THAN THAT FELT IN MOST OECD COUNTRIES, AND ALSO RETARD RECOVERY OF OVERSEAS MARKETS. DEVALUATION POSES DISFICULTIES FOR A FEW FIRMS AND INSTITUTIONS IN REPAYING
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 HELSIN 00256 02 OF 03 072004Z

FOREIGN DEBT, BUT BANK OF FINLAND INTERCEDES TO PREVENT DEFAULTS. TERMS OF CREDIT AVAILABLE TO FINNISH FIRMS AND GOVERNMENT DO NOT WORSEN SEVERELY AS LENDERS MAKE JUDGMENT THAT FINNISH ECONOMY IS CAPABLE OF BEARING BURDEN AND FINNS GIVE HIGH PRIORITY TO INTEGRITY OF FOREIGN DEBT SERVICING. ECONOMIC RELATIONS WITH USSR CONTINUE TO EXPAND GRADUALLY AS FINNS EXPAND EXPORTS TO OFFSET INCREASED OIL COSTS, AND AGREEMENT ON KOSTAMUS AND 15-YEAR ECONOMIC AGREEMENT SIGNED IN 1977.

C. INTERNAL FACTORS: GOVERNMENT AND BANK OF FINLAND EMPLOY DEVALUATION ONLY AS LAST-RESORT POLICY TOOL AFTER IT BECOMES CLEAR THAT PRICE COMPETITIVENESS OF FINNISH EXPORTS HAS DETERIORATED. A SIZEABLE DEVALUATION -- 15-20 PERCENT -- IS JUDGED NECESSARY BECAUSE OF PROPORTIONALLY SMALL IMPACT ON EXTERNAL ACCOUNT OWING TO PRICE INELASTICITY OF FINNISH EXPORTS. UNDER PRESSURE FROM LABOR AND WITHOUT FIRM PRICE CONTROLS, GOVERNMENT FORCED TO PERMIT WAGE AND PRICE INCREASES THAT REDUCE SOMEWHAT EFFECTIVENESS OF DEVALUATION AND THREATEN RENEWED INFLATIONARY TRENDS. BANK OF FINLAND IS FORCED TO MAINTAIN A FAIRLY TIGHT MONETARY POLICY.

3. BEST SCENARIO

A. DESCRIPTION: THE BANK OF FINLAND AND GOVERNMENT, SUPPORTED BY A STABLE, MODERATE MAJORITY GOVERNMENT WITH SDP PARTICIPATION FORMED IN MIDDLE OR LATE 1977, SUCCEED IN REDUCING RATE OF INFLATION. WESTERN MARKETS REVIVE DURING 1977 AND MODERATE WAGE SETTLEMENTS ENHANCE FINNISH COMPETITIVENESS. MEANWHILE, INCREASES IN EXTERNAL DEBT ARE KEPT PROPORTIONAL TO GROWTH IN GDP. DURING 2-3 PERIOD, GROWTH OF GOVERNMENT SECTOR IS CURBED, EFFECTIVE COUNTER-
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 HELSIN 00256 02 OF 03 072004Z

CYCLICAL POLICIES ARE DEVELOPED, AND METAL AND ENGINEER-

ING INDUSTRY IS SPURRED BY HIGHER PROFITS TO INNOVATE, DIVERSIFY AND MARKET EFFECTIVELY. STRENGTHENING OF ECONOMY GRADUALLY REDUCES PRESSURE ON FINNMARK. PARLIAMENTARY ELECTIONS IN 1979 UNDERLINE EMERGENCE OF POLITICAL CONSENSUS SUPPORTING NATIONAL OVER SECTORAL AND CLASS INTERESTS. ECONOMY IS WELL POSITIONED AFTER 2-3 YEARS TO MAINTAIN STEADY GROWTH AS FINLAND ENTERS 1980'S.

B. EXTERNAL FACTORS: IN MID-YEAR EXPORT MARKETS ENTER INTO PERIOD OF SUSTAINED RECOVERY. VOLUME OF EXPORTS INCREASES BY TEN PERCENT DURING YEAR. PREMONITION THAT COST INCREASES HAVE PRICED FINNISH METAL AND ENGINEERING GOODS OUT OF WESTERN MARKETS PROVE UNFOUNDED. DURING NEXT THREE YEARS FINLAND'S

ACCESS TO INTERNATIONAL CAPITAL MARKETS IS UNIMPAIRED, AND MORE THAN HALF OF LARGE FOREIGN DEBT IS REFINANCED WITHOUT STRAIN. SOVIET MARKET FOR FINNISH METAL INDUSTRY CONTINUES TO GROW, IMPELLED BY SIGNING IN MID-1977 OF 15-YEAR ECONOMIC COOPERATION AGREEMENT.

FINNISH CONSTRUCTION OF MINING CENTER AT KOSTAMUS, CLOSE TO FINNISH BORDER, PROVIDES EMPLOYMENT FOR 5,000 FINNS FOR 4-5 YEARS. FINNISH ECONOMY SUCCESSFULLY ABSORBS INCREASED COSTS OF SOVIET OIL, BASED ON WORLD PRICES, AND EXPANDS OFFSETTING EXPORTS TO USSR.

C. INTERNAL FACTORS: WITH MINIMUM DELAY AND UNREST LABOR ACCEDES TO WAGE ARRANGEMENTS LEADING TO ANNUAL NOMINAL WAGE INCREASES DURING 1977 OF FOUR PERCENT OR LESS, I.E., LOSS IN REAL INCOME. SDP, CHASTENED BY CENTER PARTY'S TURN TO RIGHT FOR SUPPORT ON 1977 BUDGET, ASSUMES MORE MODERATE STANCE ON ECONOMIC ISSUES. STRONG CENTER-SDP MAJORITY GOVERNMENT
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 HELSIN 00256 02 OF 03 072004Z

FORMED AFTER INCOMES NEGOTIATIONS HOLDS DOWN WAGE DRIFT AND BUDGETARY INCREASES. WITH INFLATIONARY EXPECTATIONS BROKEN, BANK OF FINLAND BEGINS TO RELAX MONETARY POLICY BY END OF YEAR TO PERMIT INVESTMENT SPENDING.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 HELSIN 00256 03 OF 03 072016Z
ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 SS-15 PM-04 SP-02 INR-07 PRS-01
EURE-00 SSO-00 INRE-00 IGA-02 L-03 SIL-01 /056 W
-----072020Z 086021 /47

O 071415Z FEB 77
FM AMEMBASSY HELSINKI
TO SECSTATE WASHDC IMMEDIATE 0962

C O N F I D E N T I A L SECTION 3 OF 3 HELSINKI 0256

STADIS////////////////////////////////////

4. WORST SCENARIO

A. DESCRIPTION: EXTENDED LABOR UNREST IN 1977
INCREASES SOCIALIST-BOURGEOIS POLITICAL POLARIZATION.
MINORITY GOVERNMENT UNABLE TO FORMULATE EFFECTIVE
ECONOMIC PROGRAM. POOR PERFORMANCE OF EXPORTS TO WEST
AND FAILURE DESPITE SUBSTANTIAL DEVALUATION TO
STIMULATE NEW MARKETS LEADS TO QUANTITATIVE IMPORT
RESTRICTIONS, TIGHTER FOREIGN EXCHANGE CONTROLS, AND
INCREASING TRADE AND ECONOMIC LINKS WITH USSR.

B. EXTERNAL FACTORS: FINLAND CONTINUES TO MEET
INTERNATIONAL OBLIGATIONS BUT MAY REQUIRE ASSISTANCE OF
OTHER NORDIC COUNTRIES OR
IMF TO REFINANCE GROWING DEBT
BURDEN. FINNS FIND THEIR INDEPENDENCE FURTHER CIRCUM-
SCRIBED BY INCREASING ECONOMIC RELIANCE ON SOVIETS,
WHO REFRAIN FROM EXACTING OVERT POLITICAL
CONCESSIONS.

C. INTERNAL FACTORS: KEKKONEN'S DEATH OR
INCAPACITATION WOULD AGGRAVATE UNCERTAINTIES, AT LEAST
IN SHORT TERM. POLITICS OF PRESIDENTIAL SUCCESSION
GIVE SOVIETS, ABETTED BY DOMESTIC COMMUNISTS AND
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 HELSIN 00256 03 OF 03 072016Z

INCREASED ECONOMIC LEVERAGE, NEW OPENING TO TRY TO
INFLUENCE FINNISH DOMESTIC POLITICS. UNDERLYING
TOUGHNESS OF FINNISH CHARACTER AND STRENGTH OF WESTERN
ATTITUDES AND INSTITUTIONS DIMINISH POSSIBILITY THAT
CRISIS WOULD DEEPEN TO EXTENT THAT FINNISH NEUTRALITY
WOULD BE UNDERMINED OVER THIS PERIOD.

5. ECONOMIC ESTIMATES FOR EACH SCENARIO

A. MOST LIKELY SCENARIO

1. GDP GROWTH 2.5 (1977) 4.0 (1978) 4.0 (1979)
2. UNEMPLOYMENT (AVERAGE): NUMBER 95,000 (1977) 75,000 (1978) 60,000 (1979). PERCENT OF LABOR FORCE 4.4 (1977) 3.5 (1978) 2.8 (1979).
3. FOREIGN DEBT: FMK (BILLIONS) 27 (1977) 34 (1978) 37 (1979).
4. INFLATION: 10-15 PERCENT HIGHER THAN OECD AVERAGE
5. DEVALUATION: 10-20 PERCENT BY LATE 1977 OR EARLY 1978.

B. BEST SCENARIO

1. GDP GROWTH 4.0 (1977) 5.0 (1978) 5.5 (1979)
2. UNEMPLOYMENT (AVERAGE): NUMBER 80,000 (1977) 55,000 (1978) 50,000 (1979). PERCENT OF LABOR FORCE 3.7 (1977) 2.5 (1978) 2.3 (1979).
3. FOREIGN DEBT: FMK (BILLIONS) 27 (1977) 29 (1978) 31 (1979)9
4. INFLATION: OECD AVERAGE
5. DEVALUATION: NONE

C. WORST SCENARIO

1. GDP GROWTH 1.5 (1977) 2.0 (1978) 2.0 (1979)
2. UNEMPLOYMENT (AVERAGE): NUMBER 110,000 (1977) 85,000 (1978) 85,000 (1979). PERCENT OF LABOR FORCE 5.1 (1977) 3.9 (1978) 3.9 (1979).
3. FOREIGN DEBT: FMK (BILLIONS) 28 (1977) 37 (1978) 41 (1979).

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 HELSIN 00256 03 OF 03 072016Z

4. INFLATION: 20 PERCENT HIGHER THAN OECD AVERAGE.
 5. DEVALUATION: 20-30 PERCENT LATE 1977 OR EARLY 1978.
- HOUSTON

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Sent Date: 07-Feb-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977HELSIN00256
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770043-0506
Format: TEL
From: HELSINKI
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770267/aaaachnc.tel
Line Count: 371
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3ed70fcb-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: 77 STATE 23041
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3393711
Secure: OPEN
Status: NATIVE
Subject: FINNISH ECONOMIC SITUATION
TAGS: ECON, FI
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/3ed70fcb-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009